

VZCZCXRO8879
PP RUEHROV
DE RUEHDM #5371/01 3411117
ZNY CCCCC ZZH
P 071117Z DEC 06
FM AMEMBASSY DAMASCUS
TO RUEHC/SECSTATE WASHDC PRIORITY 2573
INFO RUEHKK/ARAB ISRAELI COLLECTIVE PRIORITY
RUEAIIA/CIA WASHINGTON DC PRIORITY
RHEHAAA/WHITE HOUSE WASHDC PRIORITY
RUCQSAB/USSOCOM INTEL MACDILL AFB FL PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 DAMASCUS 005371

SIPDIS

SIPDIS

NEA/ELA; NSC FOR MARCHESE; TREASURY FOR GLASER/LEBENSON

E.O. 12958: DECL: 11/29/2016

TAGS: [ECON](#) [EFIN](#) [EINV](#) [SY](#)

SUBJECT: ISLAMIC BANKING IN SYRIA: DESIRED, BUT VULNERABLE

REF: 05 DAMASCUS 01157

Classified By: Classified By: Charge d'Affaires Michael Corbin, reasons
1.4 b/d

¶1. (C) SUMMARY: Clearly behind the rest of the region in allowing Islamic banking, the SARG is now prematurely rushing forward on opening the sector, as it has done with the stock market and other "economic reforms," to assert that just like its Arab neighbors, it too has joined the modern global economy. Moreover, with the recent licensing of the first two Islamic banks in Syria, the SARG has expanded its efforts to highlight specifically Islamic enterprises as an important feature of its broader economic reform plans. Secular banking contacts agree that Islamic banking will play well in Syria by encouraging poor and rural Syrians to enter the formal banking sector and creating an attractive product for investors. Nevertheless, without first implementing broader banking reforms, the SARG's push to be "Islam's champion" is leaving the Islamic banking sector, which lacks the regulatory structures of conventional banking, particularly vulnerable to instability and corruption in the Syrian context. END SUMMARY.

¶2. (C) SARG HYPING ISLAMIC BANKING: Although Syria is entering Islamic banking much later than its Arab neighbors, it is striving to make up for lost time. In May 2005, President Asad signed Legislative Decree 35, the Islamic Banking Law, to widespread SARG publicity, and after little more than a year of development (in contrast to the several years it took to open the first private commercial banks), the SARG is now eagerly promoting the recent licensing of the first two Islamic banks in the government-owned press and at a spate of government-sponsored financial conferences. Unlike the avowedly secular regime's rejection of Islamic propaganda in times past, the SARG has more recently been shoring up its legitimacy with Islam, and Islamic banking is just one of numerous recent initiatives it has used to burnish its Islamic credentials. The recent publicity also focuses on Islamic banking as a sign of Arab investor confidence in a "modernized" Syrian banking system and an improved investment climate, but also emphasizes the broader potential for Islamic investments in Syria, with two Islamic insurance companies also recently licensed.

¶3. (C) ABOUT THE TWO ISLAMIC BANKS: The two Islamic banks recently licensed are Al Sham Bank, backed largely by Kuwaiti investors, and the Syrian International Islamic Bank (SIIB), backed primarily by the Qatar International Islamic Bank. Islamic banks are required to have a starting capital of \$100 million and operate as joint ventures, with a maximum foreign ownership of 49 percent. The banks are expected to begin operations in early 2007, but both have already publicly offered all 51 percent of the shares for Syrian investment.

The Islamic banks are supposed to be different from the eight private commercial banks, offering all shares publicly and not reserving a portion for "strategic Syrian partners." Nevertheless, while the SARG is publicly underscoring the plebeian benefit of these banks, financial contacts confirm that the same major players, including the Sabbagh family from Aleppo, Rami Makhoul, and others, do control prominent shares.

14. (C) OPPORTUNITIES FOR ISLAMIC BANKS IN SYRIA: Though some contacts, like Sultan Al Zuibi, General Manager of the International Bank for Trade and Finance in Syria, discount a long-term growing demand for Islamic banking, many of our contacts believe that Islamic banking has a successful future in Syria. To make that point, Georges Sayegh, General Manager of Syria and Overseas Bank, recently told us that the rate of demand for Al-Sham's subscription will leave them ten to fifteen percent oversubscribed. Walid Abdel Nour, Deputy General Manager of Byblos Bank, summed up the positive comments of others on the sector when he commented that there is a strong market for Islamic banks in Syria separate from the market share for commercial banks, and that these banks will encourage those who remain leery of public and private banks, especially in poor and rural areas, to enter the formal banking sector. Beyond local demand, many in the financial sector in Syria also argue that there is corresponding foreign investor interest in Islamic banking, with Wissam Merhej of Deloitte and Touche reporting that high-profile Gulf investors are actively appealing to the SARG for additional Islamic banking licenses.

15. (C) AND CHALLENGES AHEAD: The local and foreign demand notwithstanding, there are serious challenges facing Islamic banking in Syria. According to Basel Al-Hamwi, General

DAMASCUS 00005371 002 OF 002

Manager of Audi Bank, and others, the lack of local expertise in Islamic banking practices and the continued deficiencies in the Syrian regulatory system leaves Islamic banks vulnerable to speculation and corruption, particularly as they operate on a contractual basis. The lack of operational capacity at the Central Bank to handle Islamic banking issues was underscored by Raed Karawani, a commercial lawyer assisting banks with the Syrian licensing process. Karawani reported that the Central Bank has been rushing to train staff members and calling in foreign Islamic banking experts to stand up a system for managing Islamic banks. He further noted that these bureaucratic concerns have led to a delay in additional licenses, despite more than ten applications pending with the Central Bank, including strong requests from Al-Baraka Bank of Saudi Arabia and the Dubai Islamic Bank. And in addition to these operational and structural issues, Hamwi underscored another challenge, commenting to us that unlike the Syrian commercial banks that use the well-known names of respected parent banks, Syrian Islamic banks operate without this benefit and often have multiple foreign investors that do not necessarily have the same long-term stake in their success.

16. (C) COMMENT: There is little doubt that there is strong local demand for Islamic banking in Syria that will help to generate profits for those investing in the sector. However, with continuing deficiencies in the broader Syrian banking sector, Islamic banking, which according to banking experts requires even greater oversight than commercial banks against malfeasance, is susceptible to speculation and corruption. The likelihood for corruption is underscored by the fact that the usual cronies, like Rami Makhoul, are already active in this new sector. Despite its awareness that Syrians may be negatively affected, the SARG leadership is nonetheless pressing forward with this initiative, at least in part to burnish its Islamic credentials and assert that it is achieving the financial modernization of other Arab states. Islamic banking also provides a platform for the SARG to appeal to poor and rural elements in Syria and bring them into the formal sector, and to appear to be actively

attracting foreign investment, especially from the Gulf. END
COMMENT
CORBIN